NAVSEA Financial Improvement Plan (FIP): Lessons Learned

A Presentation for ASMC PDI

NAVSEA 01

May 30 – June 2, 2006

NAVSEA Financial Improvement Plan (FIP)

- CFO Requirements
- NAVSEA Scope/Depth
- NAVSEA Process/Approach
- Results Thus Far
- Final Remarks
- Questions/Comments

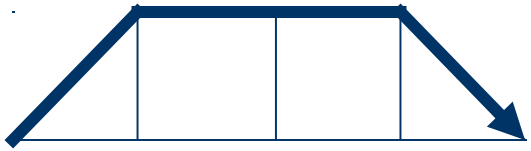
NAVSEA FIP

- Public Law 101-576
- Chief Financial Officers Act of 1990

NAVSEA FIP

- SEC.303.FINANCIIAL STATEMENTS OF AGENCIES
  - Preparation of Financial Statements.—
    - In general.—Subchapter II of Chapter 35 of Title 31, United States Code is amended by adding at the end the following: Sec. 3515. Financial Statements of Agencies
      - Not later than March 31 of 1002 and each year thereafter, the head of each executive agency identified in section 901 (b) of this title shall prepare and submit to the Director of the Office of Management and Budget a financial statement for the preceding fiscal year covering –
        - Each revolving fund and trust fund of the agency; and
        - To the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year.
      - Each Financial statement of an executive agency under this section shall reflect –
        - The overall financial position of the revolving funds, trust funds, offices, bureaus, and activities covered by the statement, including assets and liabilities thereof;
        - Results of operations of those revolving funds, trust funds, offices, bureaus, and activities; and
        - Cash flows or changes in financial position of those revolving funds, trust funds, offices, bureaus, and activities; and
        - A reconciliation to budget reports of the executive agency for those revolving funds, trust funds, offices, bureaus, and activities.

NAVSEA FIP



Budgetary Accounting

Not CFO Compliant

Not Auditable

Proprietary Accounting

CFO Compliant

Auditable with Documentation

NAVSEA Appropriations

- NAVSEA accounts for approximately 29 different appropriations requiring certification

- Appropriations Value

FY04	FY05	FY06
$23.6B	$23.6B	$23.0B

NAVSEA Approach

- Starting at Activity Level and building up to Command Level
- Determine accuracy of accounting performance at Activities
- Compliance with official accounting policies, procedures and regulations
- Internal Controls
- Review practices at Command Level

NAVSEA General Fund

- SUPSHIP Bath – ME
- SUPSHIP Groton – CT
- SUPSHIP Newport News – VA
- SUPSHIP Gulf Coast - NO,MS
- SUBMEPP, Portsmouth, NH
- SCSC Wallop Island, VA
- NAVSEA Headquarters (HQ)-Wash., D.C.
- NAVSEA Logistic Center – Mechanicsburg, PA
- NAVEODTECHDIV – Indian Head, MD
- AEGIS Tech Rep – Moorestown, NJ
- INACT Ship Office – Portsmouth, VA
- NOSSA – Indian Head, MD
- NEDU – Panama City, FL

FIP Process

- Discovery
- Validation
- Assertion
- Assessment Phase
- Audit Phase

The Process

Discovery – This phase identifies obstacles which would prevent NAVSEA from obtaining an unqualified audit opinion. NAVSEA is executing a Financial Improvement Plan that identifies the organization responsible for implementing the corrective actions or solutions with measurable results for correcting or overcoming these obstacles.

Effort

- Conducted 12 Field Activity reviews for compliance with regulations, laws, and conformance with CFO requirements
  - Researched reference materials, e.g. FMR, FASB
  - Sent questionnaire / template to Activities
  - Queried STARS data from Activities
  - Visited Activities
  - Reviewed business processes & role in generating fiduciary reports
  - Created follow-up report on field activity review
  - Identified findings and recommendations
- Commenced NAVSEA HQ Review and validation of Line Item Reviews

Deliverable

- Organized an individual FIP for each General Fund Activity and a comprehensive FIP for all NAVSEA General Fund Activities
- Created detailed flow charts of each major function
  - Funding -Unexpended Obligations
  - Commitments & Obligations -Expenditures
  - Accounts Receivable -PP&E
  - Accounts Payable -System Issues
  - Reporting
- Identified potential risks, deficiencies, and corrective actions
  - Systemic Issues
  - FMO / DFAS Issues
  - Field Activity/HQ Issues

Systemic Issues

- Duplicate effort to maintain funds control for Citibank purchase card transactions
- Accounts Payable
- Accounts Receivable
- DTS delayed interface with STARS

FMO / DFAS Issues

- PP&E threshold in Vol. 4 Ch. 6 in DOD FMR – 100k vs. 250k
- Accounts Receivable aging reports
- Refund check deposits

NAVSEA Field Activity/HQ Issues

- Tri-Annual Reviews
- Accrued Payroll Obligations
- Contingent Liabilities
  - e.g. Award Fees and Incentive Fees, Contract Holdbacks
- Environmental Liabilities for Active & Inactive Nuclear and Conventional Ships, Submarines and Aircraft Carriers

One NAVSEA HQ Issue

Total Environmental liabilities and projected costs relating to ship disposal program for active and inactive nuclear and conventional ships, submarines and aircraft carriers

What Are Environmental Liabilities?

Environmental liabilities are a probable and measurable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.

FMR Vol. 4 Chapter 13 paragraph 130102 D.

How Do Environmental Liabilities Affect NAVSEA?

NAVSEA is responsible for cleanup of the Navy's largest and most expensive assets -

Its Ships

How Do Environmental Liabilities Affect NAVSEA's Financial Statements

- For financial reporting purposes the term "environmental cleanup costs" includes costs associated with environmental restoration of environmental sites, future disposal of facilities, equipment, and munitions.
- Costs include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs related to DoD operations that result in hazardous waste.
- These costs must be recorded as environmental liabilities on the financial statements.

NAVSEA's Approach to Value the Environmental Liability Cost of Ship Disposal

- Stratified ship classes into like groups, which made sense, for rate development.
- Developed rates (cost per ton) for conventional ship hull disposal based on knowledge and experience about past and current events and assumptions about existing conditions.
- Identified hull weights using an auditable and consistent standard, the Hitchhiker's Guide, developed by NAVSEA 05.
- Applied rates times hull weights to derive the total liability.
- Identified the portion of the total liability that is environmental and the portion that is non-environmental based on prior analysis. (Analysis must be conducted periodically to ensure validity of data)
- Periodic updates of rates must be performed to ensure that environmental liability costs reported on financial statements is reasonable.

Results of Revised Method of Calculation of Non-Nuclear Inactive Ship Liabilities

- Old Method

Total Liability - $ 707.9M

Environmental Liability - $ 177M

- New Method

Total Liability - $ 365.2

Environmental Liability - $ 91.3

Standardizing the business process for calculating the EL for non-nuclear ships resulted in approx. 50% reduction in the liability estimate.

Where Do We Go From Here?

Continue review of NAVSEA Headquarters and validation of financial statement line items

- Compile overall NAVSEA General Fund FIP

Questions / Comments

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